South Staffordshire Water PLC

Accounts for the Year Ended 31 March 2013

Together with Directors'

And

Independent Auditor's Reports

(Company Registration No: 2662742)

Highlights

- Levels of service continue at the highest levels in the UK Water Industry.

- £31.3m of planned capital investment successfully completed.

- 64km of mains replaced.

- Third lowest domestic charges in England and Wales at an average of £140 per annum in 2012-13, 23% below the national average.

- Water resource position remains healthy.

- Challenging and demanding targets for leakage met.

	2013	2012
Turnover	£94.7m	£91.1m
Operating Profit*	£24.6m	£22.2m

* Operating profit includes other income

OPERATING AND FINANCIAL REVIEW

South Staffordshire Water PLC (“South Staffs Water”) is part of the South Staffordshire Plc group of companies, a privately owned Group concentrating on regulated water supply and complimentary specialist service businesses. Formed in 1853 to provide water to the inhabitants of the Black Country, the Company supplies a population of nearly 1.25 million, over an area of 1,490 square kilometres. The area of supply stretches from the edge of Ashbourne in the north, to Halesowen in the south, and from Burton on Trent in the East to Kinver in the West.

The Company obtains its water resources from three main sources: Blithfield Reservoir, the River Severn and 26 groundwater sites across the Company’s area of supply. Surface water is treated at two water treatment works and is distributed through nearly 6,000 km of mains.

South Staffs Water is a water only company and as such does not supply sewerage services. However, it does bill customers for these services on behalf of Severn Trent Water.

MANAGING DIRECTOR’S REVIEW

The Company has the customer at its heart and its long term strategic focus continues to be based on delivering exceptional customer service, maximising business efficiency through controlling costs and reducing carbon footprint by further enhancing energy efficiency and promoting water efficiency with its customers.

The Company is very conscious of the impact the business can have on society. Affordability issues are key to its customers, even more so during the current economic climate. The Company continues to ensure it strikes the balance of achieving excellent customer service in the supply of a resource which is imperative to life and wellbeing as well as the supply chain for business customers and therefore aims to deliver a service to meet customer needs whilst keeping bills low, and offering help for those in need.

To this end, significant moves forward have been made in the Service Incentive Mechanism (SIM) score for the year, and customer engagement has become a major part of the business plan for PR14.

In January 2013, Adrian Page was appointed Executive Chairman of South Staffs Water. At the end of March 2013, Jeremy Pelczer resigned as a Non-executive Director and the Company thanks him for his excellent contribution and wishes him every success in the future.

OPERATING AND FINANCIAL REVIEW

Following South Staffordshire Plc's acquisition of Cambridge Water, the Competition Commission cleared the merger with Cambridge Water on 31 May 2012, without imposing any conditions. Subsequently, Ofwat progressed the unification of the licences to incorporate the Cambridge area into the licence of South Staffordshire Water PLC in April 2013, when also the business, assets and liabilities of Cambridge Water were transferred to the Company by way of a transfer scheme in accordance with Schedule 2 of the Water Industry Act 1991. The integration of the two companies is progressing well, incorporating best practice from two very efficient customer focused businesses.

The Company is proud of its achievements and is determined to remain one of the best performing companies in the industry, which will only be possible through the continued hard work and support of employees, suppliers and contractors.

Customers continue to pay the third lowest water bills in England and Wales with the average bill of £140 in 2012/13 being 23% lower than the industry average. This is just one of the key drivers for the Company, along with providing a constant supply of safe, clean water with a service that exceeds customer expectations.

Ofwat recognises the Company as highly efficient; ranked with the best in the industry. The Company is committed to maintaining this position. However, it is not immune from the economic climate which is posing a significant challenge to collection of customer water bills, but through improved processes to assist customers in need, the position is stable. Demand from non-domestic consumers is also lower, reflecting the general state of the economy.

Since the introduction by Ofwat of the Service Incentive Mechanism (SIM), a great deal of work has been undertaken to improve processes and systems, in order to enhance the experience of the customer when they have contact regarding billing and operational matters. The Company has significantly improved performance in the year, achieving (joint) 1st position for customer satisfaction compared to 9th during 2011/12. The remaining elements of the SIM measure, and the ranking within the industry, will be known during early summer 2013.

A significant project to improve IT capabilities was implemented during the year to ensure the Company can continue to be efficient in its operations and meet customers' rising service expectations now and into the future. The project delivered the following service improvements to:

- Allow customers to have improved response times after contacting us
- Gain better information for customers regarding operational job activities
- Improve business capabilities to schedule jobs for customers directly
- Improve response times for operational activities
- Sustain high operational efficiency

The year started with several companies continuing to impose water use restrictions on their customers. The resource position of the Company remained healthy due to very effective management of resources and there were no temporary use bans implemented. The summer ultimately became the wettest on record and the drought position was naturally resolved.

Since the extreme weather impacts during the winters of 2009/10 and 2010/11, which increased leakage levels and the number of mains bursts during these years, the Company has experienced two years with relatively benign winter weather. Also, following the previous dry summers, additional leakage reduction works were carried out in support of drought management activities. As a result of this previously increased level of activity and the reduced weather impact, the average level of leakage over the last year was the lowest on record, while the number of burst mains also reduced to the lowest level in over 18 years.

Operationally, the Company continued to supply safe, clean, drinking water and during the period complied with 99.91% of all tests carried out on drinking water supplies.

Preparations commenced for the 2014 Price Review and a Customer Challenge Group was established with Dame Yve Buckland (National Chair of the Consumer Council for Water) as the independent chair. The Group has good customer and stakeholder representation and has been extremely useful in guiding customer engagement strands and proposed outcomes for PR14.

As part of the business planning process, the Water Resources Management Plan was submitted to Defra. The plan shows a healthy resource position for the 25 year planning horizon with no new resource development required.

The Final Drought Plan 2013 was also submitted to Defra and was approved for publication earlier in the year. This was placed on the Company website at the end of February.

OPERATING AND FINANCIAL REVIEW

There is a culture of strong employee engagement with employee safety being paramount to the business and there has been greater focus on accident and near miss reporting as well as staff absence. Personnel protection has been enhanced with the introduction of a Lone Worker buddy scheme to safeguard those employees who work alone.

REGULATORY ENVIRONMENT

South Staffs Water, like the rest of the water industry, is regulated by three government bodies, the Water Services Regulation Authority (Ofwat), the Drinking Water Inspectorate (DWI), and the Environment Agency.

Ofwat is the economic regulator of the industry and its role is to seek value for customers. This also includes setting limits on what companies can charge. Ofwat sets the Company's limits on prices through a periodic review process every five years. The price limits for the period 2010 – 2015 were determined in November 2009 and were as follows:

Year	2010-11	2011-12	2012-13	2013-14	2014-15
% increase	1.5	0.0	1.9	0.0	-0.6

These increases are also adjusted annually by the change in the Retail Price Index (RPI).

The Drinking Water Inspectorate is responsible for assessing the quality of drinking water in England and Wales.

The Company's interaction with the Environment Agency includes many aspects of environmental regulation including the granting of abstraction licenses that stipulate how much water can be taken from sources and discharge consents.

CAPITAL INVESTMENT

The Company has made good progress in delivering its capital programme, to ensure that its assets remain in good condition, maintain stable asset serviceability and good quality, reliable supplies to customers. Capital expenditure for the year of £31.3m net of contributions is broadly in line with the 2009 Ofwat Final Determination before accounting for a change in the Construction Output price Index (COPI) reported during the year.

FINANCIAL

Turnover for the Company has increased by 4.0% to £94.7m (2012: £91.1m) primarily due to the price increase allowed by Ofwat of 7.1% partly offset by reduced consumption from metered customers due to the very wet summer and weak economy. Operating profit was £24.6m (2012: £22.2m) with higher charges allowed by Ofwat, partly offset by higher costs representing the effect of the expected inflationary pressures, an increase in power costs following the introduction of the carbon tax and additional resources to ensure challenging service targets are achieved net of further operational efficiencies that have been generated.

The current tax charge in respect of the year to March 2013 amounted to £3.6m, representing 24.6% of profit before tax. The Company's tax charge reflects the ongoing capital investment programme which gives rise to tax capital allowance deductions earlier than the corresponding accounting charges, in particular for infrastructure investment. The Company's borrowings (as noted above) give rise to external finance charges with third parties which attract full tax deductions. The total tax charge of £2.6m incorporates a £0.8m deferred tax credit resulting from the 1% reduction in corporation tax rates to 23% for 2013/14.

Dividends of £8.1m have been paid in respect of 2012-13 (dividends paid in 2011-12: £10.3m) In addition, a final dividend of £4.9m was paid and proposed in the year reflecting better than expected cash flows and levels of debt in 2011-12.

Overall, the book value of net debt amounted to £205.8m at 31 March 2013 (2012: £196.3m). Net debt includes index-linked debt, debenture stock, finance leases, bank loans and overdraft less cash. This differs from the value used for covenant reporting purposes of £192.4m (2012: £182.8m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt. This represents 73.0% (2012: 72.4%) of the Company's Regulated Asset Value (RAV) of £263.4m (2012: £252.5m) being the Final Determination RAV uplifted for inflation. The Company's dividend policy is to pay dividends up to 77% of net debt/RAV and was impacted by the cash flow outperformance in the year and a higher than expected year end RPI of 3.3%. The Company maintains significant headroom in respect of all borrowing covenants and has significant undrawn borrowing facilities available (£15.9m at March 2013) for liquidity.

Standard and Poor's continues to rate the Company as BBB+, well within investment grade.

Treasury policy

The main purpose of the Company's financial instruments is to finance the Company's operations and reduce risk to fluctuations in external indices outside the control of the Company. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest and long and short term debt.

Financial Risks

A detailed analysis of Financial Risk is included in note 24 to the financial statements.

Accounting Policies

The Company's accounting policies are disclosed in note 1 to the financial statements. There has been no change in these accounting policies during the year. With respect to depreciable fixed assets, the estimated useful lives adopted are based on engineering judgement by the Company's asset management team based on their experience and expertise. The asset lives adopted are similar to the rest of the water industry.

Financial Covenants and Key Performance Indicators (KPIs)

There are two financial covenants relating to the Company's borrowings. These are set out below along with the actual ratios for the year and show that there is significant headroom in both covenants.

	Covenant Ratio	Actual Ratio 31 March 2013	Actual Ratio 31 March 2012
Historic net cashflow less current cost depreciation & infrastructure renewals / Historic cost debt service	>1.0:1	2.7:1	2.8:1
Net Debt / Regulated Asset Value	<0.90	0.73	0.72

A number of other financial KPIs are used by senior management and are measured against the Company's budget for the year and the Final Determination as set by Ofwat in 2009 including:

- Turnover
- Operating costs
- Net cashflow
- Net capital expenditure

The Company also monitors the Company's performance through a number of non-financial KPIs and these are outlined below:

SIM

The Company's overall SIM score for 2012/13 is 88. Continued focus on customer service continues to deliver excellent results. Initiatives over the past year have been focused on enhancing customer feedback and insight. To measure customers' satisfaction the company uses several methods to assess the quality of customer service including complaints, compliments and Ofwat's customer experience survey.
Last year the Company reported a significant improvement in customers' satisfaction with the service provided and throughout 2012/13 this trend has continued.

Quantitative Measure - The quantitative measure reflects the number of complaints and telephone contacts that the company receives. It measures the number of complaints at different stages of the complaints process. It also takes account of whether or not the company resolved the customer's problem the first time.
Here the Company has delivered an additional 11% improvement in 2012/13, and further reduced the number of unwanted and repeat contact from customers. Also, there was a 34% reduction in written complaints and the company continued its excellent performance of zero complaints accepted for investigation by CCWater for the third year running.

Qualitative Measure - The qualitative measure reflects how satisfied customers are with the quality of service they receive from South Staffs.
In 2012/13, the Company rose to joint first out of 21 companies in the qualitative measure of SIM, it was ranked ninth in 2011/12. Compared to last year the Company has improved its score by 0.23 points to 4.69; the industry average was 4.44. The focus in this area is clearly delivering results as 94% of customers surveyed were either very or fairly satisfied with the service received.

DG Levels of Service indicators

With the introduction of SIM and with Ofwat's review of regulatory compliance that has led to new regulatory KPIs, it is recognised that attention to the traditional reporting of DG standards is falling. Nevertheless it is considered appropriate to summarise the performance.

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
DG2 - % properties receiving low pressure at year end	0	0	0	0	0	0	0	0
DG3 - overall performance score wrt supply interruptions	0.09	0.28	0.45	0.16	0.44	0.04	0.05	0.08
DG 6 - % billing contacts dealt with within five working days	99.4	98.3	98.3	99.3	99.9	99.8	99.8	99.8
DG7 - % complaints dealt with within 10 working days	100	100	99.8	100	100	99.9	99.8	99.8
DG8 - Bills for metered customers, % performance	99.9	99.8	99.8	99.7	99.8	99.9	99.9	99.8
DG9 - % of calls abandoned	3.2	1.8	1.8	3.8	6.2	7.0	3.5	3.2
DG9 - % of calls receiving the engaged tone	0.1	0.3	1.0	0.5	1.1	0.5	0.1	0

In 2012/13, the Company again achieved excellent results against the majority of Ofwat's various DG level of service indicators.

Drinking Water Quality Measures and Outputs

The primary measure of Water Quality is the Mean Zonal Compliance (MZC) rate, which for 2012 was 99.91%. Performance in general across the industry has followed a downward trend and the industry has identified the cause to be an increase in coliform detections, possibly associated with the extreme climatic conditions experienced throughout the year. The MZC has been primarily affected by taste & odour failures together with a return of iron and aluminium failures.

The DWI also expresses an interest in the rate (per 1,000 population) of customer contacts of water quality concern. The rate covers all contacts, including discolouration and aeration. Over recent years a small reduction has been evident, which reflects positively on improved operational practices and customer contact responses preventing ongoing or escalating contact.

During the year, three water quality events were recorded at Seedy Mill Treatment Works. There was no risk to public health as a consequence of these events and all re-samples were satisfactory. There were no other associated failures in distributed water to customers or reservoir storage. However, as a consequence of these events, procedures have been amended to prevent a reoccurrence and significant capital works have been undertaken. The business is confident that the treatment process is operating satisfactorily and that the associated assets have integrity. Since October 2012, no further events have occurred at Seedy Mill and the Works has operated at optimum output.

Calendar year	2008	2009	2010	2011	2012
Mean Zonal Compliance %	99.991	99.994	99.983	99.971	99.910
Customer Contacts/1000 pop.	2.48	2.60	2.47	2.36	2.36

In addition to the above, Ofwat has introduced a number of financial and non-financial KPIs which replace the annual ‘June Return’ submission. These KPIs are available on the Company’s website.

ENVIRONMENT

The Company recognises the impact of its activities on the environment and is taking steps to reduce its carbon emissions. Much of the Company’s energy use is related to treatment and pumping activities.

The focus remains on:

- Investing in equipment that will assist in pumping water more efficiently and reducing the volumes pumped by further managing leakage and promoting water efficiency
- Utilising work planning techniques to reduce vehicle use
- Raising awareness among customers of the carbon emissions produced by heating water in the home.

During 2012/13, the Company gave away free foam lagging to customers to wrap up their water pipes for winter, aiming to reduce bursts and leaks.

The High Level Stewardship agreement with Natural England at Blithfield continued to enhance the environment and maintain the existing SSSI condition assessment. Projects included the removal of dense willow trees and undergrowth in the Blithe Arm to provide additional grass margin for widgeon and other wading birds, clear felling a wind damaged larch plantation to allow natural regeneration and introducing sheep to graze the wildflower meadow to encourage re-growth and provide natural nutrition.

COMMUNITY

Blithfield Education Centre gained top marks for schools visits by being awarded a Learning Outside the Classroom quality badge. The focus for education remained on water efficiency and KS2 Science. Outreach programmes have now been developed, whereby staff engage with pupils in their environment.

The onsite nursery in Walsall, operated for Company employees by Busy Bees, also opened its doors to families from the local area in June 2012, which has proven successful.

The South Staffs Water Employer Volunteer Scheme continued to provide the opportunity for staff to carry out projects that benefit the community or the environment. Projects included assisting in the creation of habitat for indigenous crayfish in the Lower Shropshire Brook on Cannock Chase, and reading for the blind.

Employees across the Company joined together to participate in high profile fund-raising events, such as Wear It Pink, Movember and Decembeard. In addition, fund raising for WaterAid generated well over £30,000 for the charity; the majority of income coming from a number of key activities including a fly-fishing challenge, race night, gala dinner and the Company lottery.

RELATIONSHIPS

Employees

The success of the Company could not be achieved without the hard work and dedication of its employees.

The development of a new training centre and the appointment of a new Operational Trainer in the year have provided an opportunity to review and expand the scope of training delivered across the Company. A new portfolio of accredited and quality approved operational training events will be launched in 2013/14 and offered Company-wide.

A new performance management model was introduced in the year based on a balanced scorecard approach (customers, cost, conduct, compliance) and the establishment of KPIs for circa 170 roles across the Company. The new Employee KPI Framework realises expectations at every level within the organisation and focuses on both what is required and how role requirements should be delivered.

South Staffs Water's annual Spotlight Awards saw a number of employees recognised for their contribution in the year. Awards included Manager, Employee and Team of the Year, in addition to awards for external contribution and customer service.

Customers

Good relationships with customers are essential to the Company's continued success and stability. The Company continues to strive for customer satisfaction in all areas, from domestic, public and commercial customers, through continued provision of high quality customer service and innovation.

Suppliers

The Company operates a competitive tendering process for the procurement of goods and services. If the value of the tender is above the EU threshold, the Company follows the relevant EU directives. The Company has very good relationships with its suppliers.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and accounts for the year ended 31 March 2013.

Principal Activity

The principal activity of the Company is the abstraction, treatment and distribution of water to domestic, commercial and industrial customers.

Business Review

A detailed review of the businesses' operations during the year ended 31 March 2013 and the future development of the Company is presented in the Operating and Financial Review on pages 1 to 11. This forms part of the Directors' report.

Directors

The Directors who held office during the year and subsequently along with the number of Board meetings attended during the year (out of 10) are as follows:

		Board Meetings Attended
Adrian Page	Executive Chairman	10
Elizabeth Swarbrick	Managing Director	6*
Keith Marshall	Supply Director	10**
Rachel Barber	Customer Service Director	10
Colin Wayper	Network Director	8
Matthew Lewis	Regulation Director	7
Stephen Morley	Compliance Director (Appointed 1/4/2013)	N/A
Tim Orange	Finance Director (Appointed 1/4/2013)	N/A
Alexander Black	Non-Executive Director	9
Simon Riggall	Non-Executive Director	9
Michael Hughes	Senior Independent Non-Executive Director	10
Sir James Perowne	Independent Non-Executive Director	10
Jeremy Pelczer	Senior Independent Non-Executive Director (Resigned 31/3/2013)	10
Stephen Kay	Independent Non-Executive Director (Appointed 1/4/2013)	N/A

* Temporarily absent

** Acting Managing Director

The Company's Executive Chairman was not considered to be independent on appointment, under the provisions of the UK Corporate Governance Code ("the Code"), as he is also an Executive Director of the immediate parent company. However the Board and the Company's shareholder believe that he has the appropriate objectivity and, as a long-term Executive of the Group, has the necessary industry knowledge, skills and experience to perform the role of Executive Chairman. There is an agreed and clear division of responsibilities between the Executive Chairman and the Managing Director. Alexander Black and Simon Riggall, both Non-Executive Directors are also Board members of the immediate parent company.

Mr Stephen Kay is considered by the Board to be independent in both character and judgement. While Mr Kay is a former Managing Director of a sister company, Cambridge Water PLC, he has never served as an Executive Director of South Staffordshire Water PLC. It is considered that Mr Kay brings to the Board valuable industry knowledge, engineering skills and experience and extensive links and knowledge of the Cambridge supply region, all of which are important attributes to the balance of the Board's composition. In addition, the appointment of Mr Kay is consistent with the commitment given to the Competition Commission and in the licence unification process to have a Non-Executive Director on the Board with links to the Cambridge area.

The Board is aware that, from 6 April 2013, Mr Michael Hughes had served over 9-years as an Independent Non-Executive Director. While the Board believes Mr Hughes remains independent in character and judgement and did so for the year under review, as he has now served over nine years on the Board of Directors, the Nomination Committee is seeking a suitable replacement Independent Non-Executive to recommend to the Board and expects to make such a recommendation in the current financial year.

No Director had any interests in the shares of the Company or in the shares of other group companies.

Financial Results

The Company's financial results are shown in the profit and loss account on page 28 and in pages 4 to 6 of the Operating and Financial Review.

Risk Management

There is an established risk management and internal control framework in place within the Company. The Directors believe that all significant risks faced by the Company are appropriately identified and managed.

The Directors' assessment of the most significant financial risks faced by the Company and how these are managed are detailed in note 24 to the accounts.

Donations

No financial charitable donations were made by the Company during either year. All charitable donations including those to the South Staffordshire Water Charitable Trust are made by the Company's parent, South Staffordshire Plc. There were no political contributions in either year.

Payment of Creditors

The Company's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Trade creditors at 31 March 2013 represent 32 days (2012: 29 days) of purchases in the year.

Corporate Social Responsibility

South Staffordshire Water PLC regards compliance with relevant environmental laws and the adoption of responsible social and ethical standards as integral to the Company. A summary of the Company's practices is provided on pages 9 to 11.

Corporate Governance and Internal Control

The Board of Directors of South Staffordshire Water PLC is aware of its obligations to ensure effective leadership and ensure appropriate governance arrangements are in place within the Company. The Company continues to apply the spirit of the UK Corporate Governance Code ("the Code") where considered applicable and appropriate to the Company taking into account that the shares of the Company are not publically quoted and believes that this approach allows the required effective leadership and appropriate governance arrangements. A summary of the Company's practices in this regard are detailed below.

The Board of Directors

The Board is collectively responsible for the long term success of the business. The Board now comprises of the Chairman, seven Executive Directors and five Non-Executive Directors, three of which are considered to be independent.

Directors may be appointed by the Company by Ordinary Resolution or by the Board. As set out in the Company's Articles of Association, a Director appointed by the Board will hold office until the next Annual General Meeting (AGM), when he or she will be subject to election. At each AGM one third of the Directors will retire by rotation and will submit themselves for re-election at least once every three years.

All Directors and Senior Management are covered by Directors' & Officers' insurance against any actions taken against them as Officers of the Company.

Functions of the Board

Under the Code, a company should have an effective Board, with duties aligned to the success and interests of the Company, setting strategic goals and ensuring that Company strategy is fulfilled. The Company held 10 Board meetings during the year ended 31 March 2013.

The Board sets high standards of conduct to promote the success of the Company, provides leadership, reviews the Company's internal controls, risk management policies and ensures an effective and high quality governance structure. It approves major financial and investment decisions over senior management thresholds and evaluates the performance of the Company as a whole. The Non–Executive Directors have a duty to oversee this work, and to scrutinise management performance. They constructively challenge and help develop proposals on strategy.

In addition to the Audit Committee and guidance from the Turnbull recommendations, the Board is also responsible for the systems of internal control, evaluating and managing significant risks to the Company.

In compliance with the Combined Code, all Board members are provided with sufficient information prior to any Board meeting to allow preparation time to ensure that they can properly discharge their duties. The Board undertakes site visits to maintain familiarity with the Company's operations.

The Board also keeps up to date with legal and regulatory changes by receiving written briefings from both internal and external advisors.

A schedule of matters specifically reserved for the Board's decision has been adopted based on the Institute of Chartered Secretaries and Administrators (ICSA) best practice. The terms include, but are not limited to:

• Reviewing and approving of capital and operating budgets;
• Reviewing and approving the Company's strategy;
• Reviewing and approving any changes to the Company's capital structure;
• Reviewing and approving financial reports;
• Reviewing and approving major contracts; and
• Powers to delegate authority.

The Board maintains a flexible approach to Board matters with the delegation of power to a Committee, with precise terms of reference, being used for specific routine purposes. Both the terms of reference and composition of the Committees are regularly reviewed to ensure their ongoing effectiveness.

The Directors are supported by a team of senior managers who have responsibility for assisting them in the development and achievement of the Company's strategy and reviewing the financial and operational performance of the Company. This team of senior managers is responsible, along with the Board, for monitoring policies and procedures and other matters that are not reserved for the Board. There are written procedures containing a regime of authorisation levels for key decision-making.

The Board undertakes a verbal evaluation of its own balance, performance and effectiveness and that of individual Directors and its Committees. These appraisals do not take a written form as it is felt that more formal procedures would not add to the effectiveness of the Board. The evaluation of the Chairman's performance is undertaken by Non-Executive Directors.

All Directors are aware of the procedure for those wishing to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary.

Remuneration

The remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors. The Remuneration Committee has overall responsibility for determining the Executive Directors' remuneration packages and level and those of senior management.

The total remuneration packages of the Executive Directors and senior management includes basic salary, benefits, an annual bonus and a long-term incentive award that are linked to individual business targets and performance related incentives. Performance related incentives are designed to encourage and reward continuing improvement in the Company's performance over the longer term. Annual salary, benefits and annual bonus awards are normally pensionable whereas deferred bonuses and long-term incentive awards are not pensionable.

Board Committees

–Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy of the Board and senior management and meets at least once a year. No Director is involved in determining his or her own remuneration. During the year the Remuneration Committee was comprised of the Non-Executive Directors, Simon Riggall and Alexander Black and Executive Chairman, Adrian Page. The Committee was chaired by Alexander Black.

The key terms of reference for the Committee are to:

• Agree remuneration that will ensure that the Executive Directors and senior management are provided with appropriate incentives to achieve high standards of performance and reward them for their individual contributions to the success of the Company;

• Determine such packages and arrangements with regard to any relevant legal requirements and associated guidance and to obtain reliable, up-to-date information about remuneration in other companies;

• Approve the design of, and determine targets for, any performance related pay schemes operated within the Company;

• Ensure that contractual terms on termination are fair and that failure is not rewarded; and

• Oversee any major changes in employee benefits structures throughout the Company.

– Audit Committee

The Audit Committee meets twice each financial year. During the year, the Audit Committee comprised of Independent Non-Executive Directors, Jeremy Pelczer (Chairman), Sir James Perowne and Michael Hughes. Deloitte LLP, the Company's external auditor, the Executive Chairman, the Finance Director the Company Secretary and the Group Internal Audit manager are also invited to the meetings.

The Committee is responsible for reviewing and monitoring the Company's internal controls and systems for mitigating the risk of financial and non-financial loss. This includes assessing the integrity of financial statements, including changes to accounting policies, reviewing financial reporting procedures and risk management systems.

The Committee is responsible for recommending to the Board the appointment, re-appointment and if necessary the removal of the external auditor and monitoring the auditor's independence, performance and effectiveness and approving the nature and scope of external audits and approving the auditor's remuneration. The current external audit firm, Deloitte LLP, has been the Company's auditor since 2002, with the audit Partner being rotated every 5 years. There is no set policy on when the external audit is subject to tender with this being at the discretion of the Audit Committee based on their evaluation of the auditor's performance, independence and value for money provided.

The key terms of reference for the Committee are to:

- Review and appraise the work of the external auditor by meeting with the auditor twice a year, reviewing the results of its work, by discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the nature of non-audit services provided and reviewing the auditor's own assessment of its independence;

- Monitor, review and challenge when necessary the integrity of the financial statements of the Company, including its Annual Accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain including those related to provisions for bad and doubtful debts and classification of expenditure between revenue and capital; and

- Keep under review the effectiveness of the Company's internal audit arrangements, internal controls and risk management policies and practices; and

- Report to the Board of Directors on how it has discharged its responsibilities.

– **Nomination Committee**

A Nomination Committee is established at an appropriate time when an appointment of a Board member is required. The majority of the Nomination Committee is, when established, Non-Executive Directors, will be chaired by a Non-Executive Director and will include an Independent Non-Executive Director. Considerable attention is given by the Nomination Committee to the composition of the Board of Directors including reviewing the balance of skills, knowledge, gender and the level of non-executive and independent challenge. External search advisors are appointed to assist the Nomination Committee where considered appropriate but are not considered necessary in all appointments including appointments made internally and from appointments made from within the Group.

The terms of reference of the Nomination Committee include:

• Preparing an appropriate specification for the relevant Board position;

• Ensuring any appointment to the Board of Directors carefully considers the balance of the Board composition;

• Ensuring successful candidates have the necessary skills, experience and knowledge to fulfil their duties;

• Ensuring successful candidates, including Non-Executive Directors, are aware of the time commitment required of them and that they are able to allocate sufficient time to adequately fulfil their duties; and

• Ensuring successful candidates have sufficient knowledge of the Company and are provided with sufficient information, including an appropriate induction, to fulfil their duties from commencement.

Accountability and Audit

– Financial Reporting and Forecasting

The Board of Directors recognises the need to present a balanced, transparent and clearly defined assessment of the Company's operational and financial performance and position including its future prospects. This is provided by a review of the Company's performance as set out in the Operational and Financial Review of each year's Annual Accounts.

Three-year business plans, annual budgets and investment proposals for the Company have been formally prepared, reviewed and approved by the Board. These include three year profit and loss and cash flow forecasts. Financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board monthly with variances being identified and used to initiate any action deemed appropriate.

Forecasts of the Company's compliance with its borrowing covenants are also prepared on a regular basis, as is the Company's level of borrowing facilities and liquidity.

The responsibilities of the external auditor in the area of financial reporting are set out in its report in each year's Annual Accounts.

– Internal Control

The Board attaches considerable importance to its system of internal control and for reviewing its effectiveness, including its responsibility for taking reasonable steps for the safeguarding of the assets of the Company and for preventing and detecting fraud and other irregularities. Such a system is designed to manage rather than eliminate the risk and can nonetheless provide only reasonable and not absolute assurance, against misstatement or loss. The Board has delegated some responsibility for such reviews to the Audit Committee.

There is an established internal control framework that is continually reviewed and updated taking into account the nature of the Company's operations. This process includes the identification, evaluation and management of the significant risks faced by the Company.

The Audit Committee will normally meet to review the Annual Accounts, to monitor the adequacy and effectiveness of internal controls and to review external and internal audit activity and strategy.

- Internal Audit

There is a Group Internal Audit function operated by the Company's parent, which is dedicated to ensuring internal control activities remain a priority within the Group. This function provides valuable support to South Staffordshire Water PLC in maintaining good systems of internal control and appropriate Corporate Governance.

A formal Annual Audit Plan for South Staffordshire Water PLC is presented to and approved by the Audit Committee. The Plan combines the need for regulatory assurance, financial reporting assurance and risk management and control with the desire to add value and improve the Company's operations. Progress against the Plan is monitored by the Audit Committee. Findings and recommendations arising from the work performed is reported to the Audit Committee at the appropriate time.

The internal audit arrangements in operation are considered to be appropriate to the size and complexity of the Company but the Board and the Audit Committee will continue to review these arrangements on a regular basis.

– Organisational Structure

A defined organisation structure for the Company exists with clear lines of accountability and appropriate division of duties.

The Board sets overall policy and has delegated the necessary authority to departments in order to fulfil that policy. This is communicated to employees by way of published policies and procedures and regular management briefings. The Company's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Board. In addition, formal treasury policies are in place. Where appropriate, commercial and financial responsibility is clearly delegated to senior management and supported by the Board.

– Risk Management

Risk management is discussed by the Board on a regular basis. The Company's senior management are required to monitor risk and its management with any significant changes in business risk and any subsequent actions or controls to mitigate the risk being reported to the Board and the Audit Committee.

– External Auditor

The Board, assisted by the Audit Committee, reviews each year the external auditor's performance, effectiveness, independence and fees including the level of non-audit services and related non-audit fees.

In evaluating the external auditor, the Audit Committee assesses the calibre of the external audit firm, the audit scope and plan which is agreed in advance with the Audit Committee and the level and nature of audit communications, including the reporting to the Audit Committee of any significant issues.

– Relations with Shareholders and the Immediate Holding Company

The ultimate controlling party and the immediate holding company is represented on the Board of Directors and there is a regular dialogue between all members of the Board and the representatives of the shareholders to ensure that their objectives and priorities are carefully considered.

South Staffordshire Water PLC's immediate holding Company, South Staffordshire Plc, provides management and professional support functions as required including executive management services (including the services of the Company's Executive Chairman), financial reporting, tax, IT, administration, insurance and internal audit services to all group companies including South Staffordshire Water PLC. In compliance with Regulatory Accounting Guidelines, these services are charged to the Company at cost. South Staffordshire Plc seeks to apply the spirit of the Code where considered by its Board to be applicable to an unquoted company. The Company's Exective Chairman is also an Executive Director of South Staffordshire Plc and is considered by both Board's to have extensive and valuable water industry knowledge and experience.

Regulatory Reporting

South Staffordshire Water PLC makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate and is supported by suitable systems and procedures. The Board, including Independent Non-Executive Directors, are involved in the approval process for key regulatory information, and this process supports the governance in place and the review of information by an independent engineering assessor (Monson Engineering) and the audit work performed by the external auditor (Deloitte LLP). Where considered appropriate, the Group's internal audit function will also review processes and data in this area.

The Company places great emphasis on regulatory reporting to ensure that it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat and other regulators. It is important to the Company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business with reference to this data.

The Company's Regulatory Accounts are set out on pages 56 to 82.

Going Concern and Basis for Assumption

The Directors consider that it is appropriate to prepare the accounts on a going concern basis. This is based upon a review of the Company's budget for 2013-14, the current three-year plan to March 2016 and the investment programme, together with the committed borrowing facilities available to the Company, actual and forecast compliance with their covenants and its access to capital markets. In addition, the Directors are required to certify to Ofwat under Condition F of its Instrument of Appointment that sufficient financial resources are available for at least the next 12 months.

The Company's business activities, together with the factors likely to affect its future development, are set out in the Operating and Financial Review on pages 1 to 11. The financial position of the Company, its liquidity position and available borrowing facilities are set out on pages 4 to 6 of the Operating and Financial Review, the balance sheet on page 29 and in note 24 to the accounts, which includes the Company's objectives for managing its financial risks, details of its financial instruments and hedging activities and its exposure to interest, credit and liquidity risk. The Company has a large number of both domestic and commercial customers, none of which make up a significant proportion of the businesses turnover. The Company has significant undrawn borrowing facilities in addition to its net cash balances and has significant headroom in respect of all of its borrowing covenants, both on a historic and forward looking basis.

Auditor

In accordance with the provisions of s418 of the Companies Act 2006, the Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A resolution proposing the reappointment of Deloitte LLP as auditor will be put to the Annual General Meeting.

By Order of the Board

J. R. Goodwin
Company Secretary
12 July 2013
Registered Office: Green Lane, Walsall, West Midlands WS2 7PD
Registered in England and Wales, Number 2662742

DIRECTORS' RESPONSIBILITIES STATEMENT

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, set out on pages 26 and 27, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the accounts.

The Directors are required by Company Law, and under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, as a water undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year. Under Company Law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing the accounts the Directors are required to:

- Select suitable accounting policies (see pages 31 to 34) and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which will enable them to ensure that the accounts comply with the Companies Act 2006.

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to detect and prevent fraud and other irregularities.

The Directors, having prepared the accounts, are required to provide to the auditor with such information and explanations as the auditor thinks necessary for the performance of its duties.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors have the responsibility for the maintenance and integrity of the Company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

We have audited the financial statements of South Staffordshire Water PLC for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Hall, FCA

David Hall FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
12 July 2013

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Turnover	2	**94,732**	91,060
Operating costs (net)	3	**(70,134)**	(68,885)
Operating profit		**24,598**	22,175
Finance charges (net)	7	**(9,928)**	(9,553)
Profit on ordinary activities before taxation		**14,670**	12,622
Taxation on profit on ordinary activities	8	**(2,610)**	(3,178)
Profit on ordinary activities after taxation	21, 22	**12,060**	9,444
Earnings per share			
Basic	10	**568.0p**	444.8p
Diluted	10	**568.0p**	444.8p

The results above are derived from continuing operations.

A statement of movements in reserves is given in note 21 to the financial statements.

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

As at 31 March 2013

	Note	2013	2012
		£'000	£'000
Fixed Assets			
Tangible assets	11	**209,659**	199,447
Current Assets			
Stocks	14	**1,488**	1,574
Debtors - amounts recoverable within one year	15	**15,704**	13,972
Debtors - amounts recoverable in more than one year	15	**44,193**	44,320
Cash at bank and in hand		**1,499**	2,221
		62,884	62,087
Creditors - amounts falling due within one year	16	**(41,887)**	(34,745)
Net current assets		**20,997**	27,342
Total assets less current liabilities		**230,656**	226,789
Creditors - amounts falling due after more than one year	17	**(208,272)**	(203,538)
Accruals and deferred income	13	**(7,732)**	(7,315)
Provisions for liabilities	19	**(11,661)**	(12,087)
Net Assets		**2,991**	3,849
Capital and Reserves			
Called-up share capital	20	**2,123**	2,123
Share premium account	21	**495**	495
Hedging reserve	21	**(5,133)**	(5,215)
Capital redemption reserve	21	**4,450**	4,450
Profit and loss account	21	**1,056**	1,996
Shareholders' Funds	22	**2,991**	3,849

The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Water PLC (Company number 2662742) were approved by the Board of Directors and authorised for issue on 12 July 2013.

M. J. Lewis

A. P. Page

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2013	2012
		£'000	£'000
Profit on ordinary activities after taxation		**12,060**	9,444
Movement in hedging reserve (net of deferred tax)	21	**82**	(136)
Total recognised gains and losses relating to the year		**12,142**	9,308

1. Statement of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of Accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards on a going concern basis as stated in the Directors' Report on page 22. In order to show a true and fair view, the Company has departed from the Companies Act 2006 in respect of accounting for capital contributions. Further details are provided in (d) below.

b) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services in the normal course of business and includes amounts billed for water together with an estimation of amounts unbilled at the year end.

c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (consisting of water mains, impounding and pumped raw water storage reservoirs and dams), operational structures (being pumping stations, treatment stations, boreholes and service reservoirs) and other assets.

Infrastructure Assets

Infrastructure assets comprise a network of systems that, as a whole, is intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of its components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks and on maintaining the operating capability of the network in accordance with defined standards of service is treated as additions which are capitalised at cost.

The depreciation charge for infrastructure assets is the average level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

Operational Structures and Other Fixed Assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. The estimated useful lives of the assets are as follows:

Buildings and Service Reservoirs	50-80 years
Boreholes	100 years
Fixed Plant	20-30 years
Meters	15 years
Mobile Plant	5 years
Motor Vehicles	3-7 years
Office Equipment	5-7 years

d) Capital Contributions

Capital contributions are treated as deferred income and amortised over the useful lives of the assets concerned, except in the case of contributions towards the cost of infrastructure assets, which are not amortised. This departure from the requirements of the Companies Act 2006 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view, as it is not possible to amortise contributions to the profit and loss account over the lives of the fixed assets concerned, as infrastructure assets do not have determinable finite lives.

e) Leased Assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the Company, are included within fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding.

f) Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes materials and an appropriate element of overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

g) Pensions

The Company is required to account for pension schemes in accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17). For the defined contribution scheme the amount charged to the profit and loss account is the contributions payable in the year. The defined benefit scheme is a multi-employer scheme and the Company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis. Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with the amount charged to the profit and loss account being the contributions payable in the year.

h) Research and Development

Research and Development is charged to the profit and loss account in the year in which it is incurred.

i) Taxation

Current tax is charged on taxable profits at the current rate.

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation changing rates enacted or substantially enacted at the balance sheet date. The liability is discounted, using the yield to maturity on government gilts, to reflect the time value of money over the period between the balance sheet date and the date on which the timing differences are expected to reverse.

j) Financial Instruments

Financial Assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable are categorised as "loans and receivables" which are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Financial Liabilities

Financial liabilities are all categorised as "other financial liabilities" which are initially measured at fair value and subsequently measured at amortised cost. The premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument which is included in finance charges (net) in the profit and loss account.

k) Hedge Accounting

The Company designates certain hedging instruments as cash flow hedges. At inception of the hedge relationships, the Company documents the relationships between the hedging instruments and the hedged items along with the Company's risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the Company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity in a hedging reserve. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. The amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account.

Hedge accounting is discontinued when the Company de-designates the hedging relationships, the hedging instruments expire, are terminated or are sold or they no longer qualify for hedge accounting. Any cumulative gain or loss that remains in the hedging reserve at the time is recognised when hedged forecast transactions are ultimately recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

l) Cash Flow Statement

Under the provisions of Financial Reporting Standard Number One, the Company has not prepared a cash flow statement because its immediate parent company, South Staffordshire Plc, which holds more than 90% of the Company's share capital, has prepared consolidated accounts which include the accounts of the Company for the year ended 31 March 2013, which contain a consolidated cash flow statement and which are publicly available.

m) Dividends

Dividends are recognised in the profit and loss account if they have been paid or if they have been approved by the Company's Board and shareholders before the period end.

2. Segmental Information

The Directors consider that the Company operates substantially in the UK in one class of business, that being water supply. No analysis of turnover, profit before tax or net assets, by geographical area or class of business, is considered necessary.

3. Operating Costs (Net)

	2013	2012
	£'000	£'000
Operating costs (net) were as follows:		
Other operating income (see note 6)	**(747)**	(574)
Raw materials and consumables	**3,560**	4,148
Staff costs (see note 4)	**17,770**	17,578
Own work capitalised	**(6,151)**	(6,241)
Depreciation : non-infrastructure assets	**12,288**	11,460
Depreciation : infrastructure assets	**9,685**	9,596
Amortisation of capital contributions	**(588)**	(533)
Other operating costs	**34,317**	33,451
	70,134	68,885

Auditor remuneration is analysed as follows:

	2013	2012
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**41**	40
Other services pursuant to legislation	**4**	4
	45	44

4. Staff Costs

	2013 £'000	2012 £'000
Wages and salaries	**13,281**	13,172
Social security costs	**1,150**	1,141
Pension costs (see note 23)	**3,339**	3,265
	17,770	17,578

	2013 Number	2012 Number
Average number of employees	**397**	406

5. Directors' Remuneration

	2013 £'000	2012 £'000
Emoluments	**819**	729

There were no contributions made by the Company to money purchase pension schemes in respect of the Directors in either year.

During the year and the prior year, certain Directors received no emoluments as Directors of this Company. These directors were remunerated by the immediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £435,000 (2012: £377,000). No contributions were paid by the immediate parent undertaking to a money purchase pension scheme in respect of these Directors in either year. 5 Directors (2012: 5) who held office at the end of the year were accruing benefits under a defined benefit pension scheme and no Director was a contributing member under a money purchase scheme at either year end.

The highest paid directly employed Director received emoluments of £221,000 (2012: £213,000) and was a member of a defined benefit pension scheme which provided for an accrued pension of £66,000 (2012: £57,000) and an accrued lump sum of £197,000 at March 2013 (2012: £172,000).

6. Other Operating Income

	2013	2012
	£'000	£'000
Profit on disposal of fixed assets	**180**	172
Rental income	**567**	402
	747	574

7. Finance Charges (Net)

	2013	2012
	£'000	£'000
Interest payable and similar charges:		
Index-linked debt (Cash)	**6,537**	6,316
Index-linked debt (Non-cash)	**5,512**	5,337
Bank overdraft and other interest	**359**	280
Finance charges in respect of finance leases	**133**	150
Debenture interest	**67**	67
	12,608	12,150
Interest receivable:		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(328)**	(250)
	9,735	9,355
Other finance charges		
Amounts recycled from hedging reserve	**193**	198
	9,928	9,553

8. Taxation on Profit on Ordinary Activities

	2013	2012
	£'000	£'000
Current tax:		
Current year	**3,611**	3,369
Adjustment in respect of prior years	**(463)**	(1,106)
Total current tax charge	**3,148**	2,263
Deferred tax:		
Origination and reversal of timing differences	**(541)**	(744)
Decrease in discount	**266**	2,757
Adjustment in respect of prior years	**553**	550
Impact of change in future tax rates (before discount)	**(816)**	(1,648)
Total deferred tax (credit) / charge	**(538)**	915
Total tax on profit on ordinary activities	**2,610**	3,178

The principal differences between the current corporation tax rate based on the profit before tax and the standard rate of corporation tax are as follows:

Standard rate of corporation tax	**24.0%**	26.0%
Timing differences in respect of finance charges	**4.5%**	5.6%
Capital allowances in excess of depreciation (net)	**(0.7%)**	0.6%
Adjustments in respect of prior years	**(3.2%)**	(8.8%)
Other timing differences	**0.1%**	0.2%
Other permanent differences	**(3.2%)**	(5.7%)
Current corporation tax rate for the year	**21.5%**	17.9%

9. Dividends Paid

	2013	2012
	£'000	£'000
Equity interests:		
Ordinary dividends paid of 612.3p (2012: 485.1p) per share	**13,000**	10,300

10. Earnings per Share

The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the year.

The calculations of earnings per share are based on the following profits and number of shares:

	2013	2012
	£'000	£'000
Profit on ordinary activities after taxation and profit for earnings per share	**12,060**	9,444
	2013	2012
	Number of Shares	Number of Shares
Weighted average number of shares for basic and diluted earnings per share	**2,123,210**	2,123,210

11. Tangible Fixed Assets

	Specialised Operational Assets £'000	Non Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Cost					
At 1 April 2012	123,301	18,777	181,568	111,777	435,423
Additions	7,676	116	13,941	12,912	34,645
Capital Contributions	-	-	(2,302)	-	(2,302)
Disposals	-	-	(1,208)	(561)	(1,769)
At 31 March 2013	**130,977**	**18,893**	**191,999**	**124,128**	**465,997**
Depreciation					
At 1 April 2012	52,779	4,840	124,507	53,850	235,976
Charge for the year	4,517	282	9,685	7,489	21,973
Disposals	-	-	(1,208)	(403)	(1,611)
At 31 March 2013	**57,296**	**5,122**	**132,984**	**60,936**	**256,338**
Net Book Value					
At 31 March 2013					
Owned	72,229	13,771	54,788	61,512	202,300
Leased	1,452	-	4,227	1,680	7,359
	73,681	**13,771**	**59,015**	**63,192**	**209,659**
Net Book Value					
At 31 March 2012					
Owned	68,980	13,937	52,834	55,953	191,704
Leased	1,542	-	4,227	1,974	7,743
	70,522	13,937	57,061	57,927	199,447

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £13,572,000 (2012: £13,604,000) less accumulated depreciation of £6,213,000 (2012: £5,861,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £666,000 (2012: £626,000). Tangible fixed assets include freehold land of £1,984,000 (2012: £1,984,000) which is not subject to depreciation.

Infrastructure renewals expenditure and the charge to the profit and loss account have been included within infrastructure asset cost and accumulated depreciation respectively. The net book value of infrastructure assets is stated net of capital contributions. The balance of capital contributions at 31 March 2013 and movements in the year are set out in note 13 below. Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £10,309,000 at 31 March 2013 (2012: £7,512,000).

12. Commitments

Capital commitments outstanding at 31 March 2013 were £1,500,000 (2012: £1,696,000).

13. Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 2012	**88,283**	7,315
Capital contributions received	**2,302**	1,005
Disposals	**(587)**	-
Amortised in year	**-**	(588)
Balance at 31 March 2013	**89,998**	7,732

Capital contributions in respect of other assets are included in accruals and deferred income.

14. Stocks

	2013 **£'000**	2012 £'000
Raw materials and consumables	**1,488**	1,574

There is no material difference between the balance sheet value of stocks and their replacement cost.

15. Debtors

	2013 £'000	2012 £'000
Amounts recoverable within one year:		
Trade debtors	**8,195**	7,427
Other debtors	**396**	462
Amounts due from Other Group undertakings	**19**	11
Amounts due from Parent undertakings	**364**	364
Prepayments and accrued income	**6,730**	5,708
	15,704	13,972
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**4,145**	4,264
Other debtors	**48**	56
	44,193	44,320
	59,897	58,292

16. Creditors – amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans and overdraft (unsecured)	**9,406**	6,030
Obligations under finance leases	**1,008**	681
Payments received in advance	**10,568**	9,976
Trade creditors	**9,119**	7,977
Other creditors	**4,626**	4,647
Amounts owed to other Group undertakings	**4,401**	3,874
Corporation tax payable	**2,314**	1,119
Other taxation and social security	**445**	441
	41,887	34,745

17. Creditors – amounts falling due after more than one year

	2013	2012
	£'000	£'000
Irredeemable debenture stock (unsecured) (note 18)	**1,633**	1,633
Obligations under finance leases:		
payable between one and two years	**588**	794
payable between two and five years	**241**	484
Other Creditors	**11,398**	11,727
Retail Price Index-linked debt (unsecured)	**194,412**	188,900
	208,272	203,538

Obligations under finance leases are secured on the assets to which they relate.

18. Irredeemable Debenture Stock

	2013	2012
	£'000	£'000
3.5%	**476**	476
4.0%	**627**	627
5.0%	**500**	500
	1,603	1,603
Net premium on irredeemable debenture stock	**30**	30
	1,633	1,633

19. Provisions for Liabilities

	2013 £'000	2012 £'000
Deferred Tax		
Deferred tax is provided as follows:		
Accelerated capital allowances	**16,853**	16,935
Timing differences in respect of finance charges	**1,632**	2,357
Timing differences in respect of hedging reserve	**(1,534)**	(1,646)
Other timing differences	**(256)**	(259)
Undiscounted provision for deferred tax	**16,695**	17,387
Discount	**(5,034)**	(5,300)
Discounted provision for deferred tax	**11,661**	12,087

	£000
Balance at 1 April 2012	**12,087**
Profit and loss account charge	**(538)**
Charge to Statement of Total Recognised Gains and Losses	**112**
Balance at 31 March 2013	**11,661**

Reductions to the future corporation tax rate of 23% were substantively enacted during the year ending 31 March 2013 and as such deferred tax has been provided at this rate. The government has also indicated that it intends to enact further reductions in the corporation tax rate reducing to 20% by 1 April 2015. These further reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements.

The decrease in the discount of £266,000 represents the charge to profit and loss for the year and includes the impact of the change in future tax rates to 23% as explained above. There is an unprovided deferred tax liability of £1,434,000 (2012: £1,463,000) on capital gains rolled over into other assets of the Company. This will crystallise if the Company sells the assets into which the gain has been rolled into.

20. Share Capital

	2013 £'000	2012 £'000
Profit for the financial year	**12,060**	9,444
Dividends paid (note 9)	**(13,000)**	(10,300)
Movement on hedging reserve (net of deferred tax)	**82**	(136)
Net reduction to shareholders' funds	**(858)**	(992)
Opening shareholders' funds	**3,849**	4,841
Closing shareholders' funds	**2,991**	3,849

21. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000
Balance at 1 April 2012	495	4,450	1,996	(5,215)
Profit for the financial year	-	-	12,060	-
Dividends paid (note 9)	-	-	(13,000)	-
Adjustment in respect of changes in tax rates	-	-	-	(68)
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	150
Balance at 31 March 2013	**495**	**4,450**	**1,056**	**(5,133)**

22. Reconciliation of Movements in Shareholders' Funds

	2013 £'000	2012 £'000
Profit for the financial year	**12,060**	9,444
Dividends paid (note 9)	**(13,000)**	(10,300)
Movement on hedging reserve (net of deferred tax)	**82**	(136)
Net reduction to shareholders' funds	**(858)**	(992)
Opening shareholders' funds	**3,849**	4,841
Closing shareholders' funds	**2,991**	3,849

23. Pension Retirement Benefits

The Company operates a number of funded pension schemes for the benefit of its employees. The Company participates in the Water Companies Pension Scheme, by way of a separate sub-fund, which provides benefits based on final pensionable pay. In addition, the Company participates in a Group defined contribution Money Purchase Pension Scheme. The assets of both schemes are held separate from those of the Company, being invested by discretionary fund managers.

The contributions to the defined contribution scheme are charged against profits as incurred. As detailed in note 1, the defined benefit scheme is classified as a multi-employer scheme as it includes employees of other Group entities and it is not practicable to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis. Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with contributions charged against profits as incurred.

The amount charged to the profit and loss account for the defined benefit scheme for the year ended 31 March 2013 was £3,160,000 (2012: £3,096,000) representing an employer's contribution rate of 26.2% and a fixed contribution of £1,629,000 (2012: 23.0% and a fixed contribution of £1,715,000). The employee contribution rate during the year was 9.5% (2012: 9.5%). Contributions rates for the year ending 31 March 2014 remain at 9.5% for the employee with the employer rate remaining at 26.2% and a fixed contribution of £1,672,000. The amount charged to the profit and loss account for the defined contribution scheme for the year ended 31 March 2013 was £179,000 (2012: £169,000). There was no overdue contributions payable at either year end.

Additional disclosures regarding the defined benefit pension scheme are required by FRS17. The latest actuarial valuation of the South Staffordshire Water section of the scheme as at 31 March 2013, prepared for the purposes of the consolidated financial statements of the parent company, shows a surplus before deferred tax of £16,222,000 (2012: surplus of £12,154,000). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme at the balance sheet date were:

	2013 Valuation £'000	2012 Valuation £'000	2011 Valuation £'000
Equities	**67,949**	72,434	79,005
High yield bonds, gilts and debt instruments	**84,583**	84,238	68,917
Diversified growth funds	**24,766**	17,916	16,895
Emerging markets multi-asset funds	**14,733**	-	-
(Overdraft) / Cash	**(41)**	123	174
Market value of assets	**191,990**	174,711	164,991
Present value of scheme liabilities	**(174,050)**	(162,557)	(146,365)
Surplus in the scheme	**17,940**	12,154	18,626
Amount not recognised due to asset limit	**(1,718)**	-	(2,741)
Surplus before deferred tax	**16,222**	12,154	15,885
Related deferred tax liability	**(3,731)**	(2,917)	(4,130)
Surplus after deferred tax	**12,491**	9,237	11,755

Further details required by FRS 17 in respect of the Group's schemes are provided in the consolidated accounts of South Staffordshire Plc.

24. Financial Assets and Liabilities

The analysis of the Company's financial assets and liabilities included below includes cash, loans receivable, borrowings, trade creditors and trade debtors. Borrowings represent bank loans and overdrafts, finance lease obligations, index-linked borrowings and irredeemable debenture stock. The main purpose of these financial instruments is to finance the Company's operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating interest rates and long and short term debt while not exposing the Company to significant risk of market movements (see below). The Company is not exposed to any material foreign exchange risk.

Interest Rate Risk Profile

Borrowings

The interest rate profile of the borrowings of the Company as at 31 March 2013 was as follows:

	Total Book Value	Fixed rate financial liabilities	Floating rate financial liabilities	Retail Price Index-Linked debt
	£'000	£'000	£'000	£'000
31 March 2013	**207,288**	**3,470**	**9,406**	**194,412**
31 March 2012	198,522	3,592	6,030	188,900

The floating rate financial liabilities as at 31 March 2013 and 31 March 2012 comprised bank loans and overdrafts that bear interest at rates based on LIBOR. The Company's cash balances earn interest at floating rates linked to LIBOR or the Bank of England base rate. The Company's trade debtors and trade creditors are not subject to interest unless considered to be overdue.

For all financial assets and liabilities, the book values and fair values are not materially different, except for the £111,400,000 (2012: £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2013 of £153,893,000 (2012: £149,688,000), and a fair value of £220,204,000 (2012: £179,321,000) and the £35,000,000 (2012: £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2013 of £40,519,000 (2012: £39,212,000) and a fair value of £34,695,000 (2012: £36,120,000).

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2013	**6.2**	**1.7**
31 March 2012	6.2	1.7

Borrowing Facilities

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2013 in respect of which all conditions precedent have been met were as follows:

	2013 £'000	2012 £'000
Expiring in one year or less	**15,000**	10,000
Expiring in more than one year but not more than two years	**-**	9,700
Expiring in more than two years but not more than five years	**898**	-
	15,898	19,700

Financial Risks

The Company's activities result in it being subject to a limited number of financial risks, principally interest rate risk, as the Company has floating rate and Retail Price Index-linked borrowings and credit risk as the Company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The Company has formal principals for overall risk management as well as specific policies to manage individual risks.

1) Interest Rate Risk

Interest rate risk arises from borrowings issued at floating rates including those linked to LIBOR and the Retail Price Index (RPI) that expose the Company's earnings and cashflows to changes in LIBOR and RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of the Company's borrowings that are linked to this variable. Risks associated with increases in RPI are effectively hedged against the revenues and the Regulatory Asset Value of the regulated water business, both of which are also linked to RPI.

2) Credit Risk

As is market practice, the Company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers. Full details of the way this risk is managed are provided below. Credit risk also includes the risk over recovery of loans receivable. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

3) Liquidity Risk

Liquidity risk represents the risk of the Company having insufficient liquid resources to meet its obligations as they fall due. The Company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and availability of adequate banking facilities including sufficient headroom. The table above details the undrawn committed borrowing facilities available to the Company to manage this risk.

Sensitivity Analysis

The following analysis, required by the Financial Reporting Standard 29, is intended to illustrate the sensitivity to reasonably possible movements during the year, in variables affecting financial liabilities, being LIBOR and the long term forecast for the UK Retail Price Index (RPI) on the pre-tax profit and loss account of the Company for the year ended 31 March 2013. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2013 £'000	2012 £'000
RPI +0.25%	**(448)**	(435)
RPI -0.25%	**448**	435
LIBOR +1.00%	**102**	81
LIBOR -1.00%	**(102)**	(81)

The impact on the pre-tax profit and loss account for 2013 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2012 and remained different to the actual variables recorded by the stated amount during the year and with all other variables remaining at the actual amounts. The comparative figures have been calculated using the same methodology assuming the change to the variables occurred on 1 April 2011.

Maturity of Financial Assets and Liabilities

The maturity profile of the Company's financial liabilities at current repayment value, not the book value, at 31 March 2013 was as follows:

Borrowings	2013 £'000	2012 £'000
In one year or less or on demand	**10,414**	6,711
In more than one year, but not more than two years	**588**	794
In more than two years, but not more than five years	**241**	484
In more than twenty years	**182,618**	177,040
	193,861	185,029
Other Financial Liabilities		
In one year or less or on demand	**31,473**	28,034
In more than one year, but not more than two years	**366**	347
In more than two years, but not more than five years	**1,224**	1,160
In more than five years, but not more than twenty years	**9,808**	9,634
In more than twenty years	**-**	586
	236,732	224,790

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £180,986,000 (2012: £175,407,000) included in the table above are stated at the principal amount indexed by RPI to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in

2045 is £399,467,000 (2012: £399,467,000) and at redemption in 2051 is £139,996,000 (2012: £139,996,000).

Debtors recoverable in more than one year of £44,193,000 (2012: £44,320,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2012: £40,000,000) with £15,000,000 (2012: £15,000,000) due to be repaid within five to twenty years and £25,000,000 having no fixed repayment date (2012: £25,000,000).

Trade Debtors

Before accepting orders from new customers and offering credit terms, the Company undertakes appropriate credit assessments and uses this information to determine if the order is accepted and the credit terms that will be offered. Provision is made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to March 2013 in respect of such provisions was £2,821,000 (2012: £2,557,000). Total trade debtors as at 31 March 2013 were £8,195,000 (2012: £7,427,000). The total amount of the provision included in the above, as at 31 March 2013 was £18,594,000 (2011: £15,766,000). The Company does not hold collateral over its trade debtors.

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value. The largest balance outstanding from any single customer at 31 March 2013 was £130,000 (2012: £179,000), representing only 1.6% of the Company total (2012: 2.4%).

An ageing analysis of trade debtors that are invoiced but not impaired is provided below:

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2013	**4,950**	**1,665**	**1,167**	**720**	**273**	**-**	**8,775**
2012	4,759	1,675	1,208	602	74	-	8,318

Non-Regulated	<1 month	1-2 months	>2months	Total
2013	**181**	**80**	**44**	**305**
2012	260	19	17	296

Non-regulated debtors that are considered to be impaired of £8,000 (2012: £5,000) were all more than two months past due.

An ageing analysis of appointed debtors that are considered to be impaired is provided below:

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2013	**2,887**	**2,685**	**2,434**	**2,360**	**2,246**	**5,974**	**18,586**
2012	2,668	2,552	2,241	2,127	2,046	4,127	15,761

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 15 approximates to their fair value.

25. Related Party Transactions

As at 31 March 2013, the Company was an indirectly wholly owned subsidiary undertaking of Hydriades IV Limited. As such, the Company has taken advantage of the exemption in FRS 8 “Related Party Disclosures” from disclosing transactions with other members of the group headed by Hydriades IV Limited, as consolidated financial statements for this Company in which the accounts of the Company are included, are publicly available.

During the year ended 31 March 2009, South Staffordshire Water PLC entered into a series of agreements with a parent undertaking, Hydriades I LP. The agreements were put in place to offset the impact on the Company of certain hedging relationships entered into with a third party bank, on both the cash flow and the profit and loss account. The balance due from Hydriades I LP in respect of these transactions at 31

March 2013 was £4,509,000 (2012: £4,628,000). This amount has been recognised within debtors in the Balance Sheet. In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact.

26. Ultimate Controlling Party

The immediate parent company is South Staffordshire Plc which is registered in England and Wales and is the smallest group preparing consolidated accounts that include South Staffordshire Water PLC. The ultimate parent company in the United Kingdom is Hydriades IV Limited, also registered in England and Wales which is the largest group preparing consolidated accounts that include South Staffordshire Water PLC. The consolidated accounts of both of these companies can be obtained from the Company's registered office. The ultimate controlling party at 31 March 2013 was Alinda Capital Partners LLC a company registered in the United States of America.

27. Post Balance Sheet Events

During the year ended 31 March 2013, the Company made an application to Ofwat to become the water undertaker in place of Cambridge Water PLC in Cambridge Water's supply area. The application was reviewed by Ofwat and involved a period of public consultation and was subsequently approved by Ofwat with the changes to the Company's Instrument of Appointment effective from 1 April 2013. Also on 1 April 2013, the business, all of the assets, property, rights and liabilities of Cambridge Water PLC were transferred to the Company by way of a transfer scheme in accordance with Schedule 2 to the Water Industry Act 1991.

On 3 May 2013, the Company's ultimate controlling party, Alinda Capital Partners LLC, agreed to sell South Staffordshire plc, the Company's immediate parent, and its UK parent companies to global investment firm Kohlberg Kravis Roberts & Co LP (KKR). The sale is expected to be completed in late July 2013 now that EU merger regulation approval has been received.

South Staffordshire Water PLC

Regulatory Accounts

Year Ended 31 March 2013

CURRENT COST ACCOUNTS REVIEW OF THE APPOINTED BUSINESS

The operating and financial review of South Staffordshire Water PLC is set out in pages 1 to 11 of the statutory accounts.

Financial Results - Current Cost Accounts

The results of the appointed business are shown in the current cost profit and loss account on page 60. Turnover for the year has increased by 5.3% to £92.3m (2012: £87.7m), reflecting the increase in charges allowed by Ofwat of 7.1% partly offset by reduced consumption from metered customers as a result of the wet summer. Current cost operating profit was £18.9m (2012: £16.9m) reflecting the allowed increase in charges partly offset by higher costs representing the effect of the expected inflationary pressures net of operational efficiencies that have been generated.

Current Cost Depreciation

The Current Cost Depreciation charge (CCD) for the year net of amortisation was £16.6m (2012: £15.0m), a year on year increase of £1.6m. This reflects the CCD on non-infrastructure asset additions in the year of £16.6m (net of contributions).

Infrastructure Renewals Charge

The Infrastructure Renewals Charge (IRC) for the year, based upon the Company's long term expectations of mains replacement for the period 2010-11 to 2024-25, was £9.7m (2012: £9.6m) and reflects the level of mains replacement to arrest rising trends in burst levels and to assist with leakage control activities. 64km of mains were replaced during the year.

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The remuneration policy of the Company continues to provide a remuneration package designed to attract, retain and motivate good quality senior executives. Remuneration comprises salary, benefits and performance related bonus. Each Director receives a base salary which does not vary in relation to business or individual performance.

During the year ended 31 March 2013, Executive Directors had bonus arrangements in place which are payable upon achievement of certain performance objectives, with the intention of rewarding excellent performance. As part of the Company's policy on Corporate Governance, Independent Non-Executive Directors do not have bonus arrangements in place.

The annual bonuses awarded to Executive Directors are linked to the following Standards of Performance of the Company:

Customer Service (Based upon the SIM Performance as reported to Ofwat)
Operating Profitability (As reported in published accounts)
Operating Costs (As reported in published accounts)
Cash Generation (As reported in published accounts)

Bonus awards are linked to the above standards of performance as the Remuneration Committee considers such arrangements will maintain consistency between the objectives of the Directors and its principal stakeholders including its customers and its shareholders. The standards of performance to which bonuses are linked are reviewed annually by the Remuneration Committee to ensure this consistency continues to be maintained.

The bonus awarded to each Director in the above categories is based on a "sliding scale" with the bonus awarded in each category increasing with performance up to a specified maximum award for excellent performance. In addition, each Director has a number of personal targets to achieve for the year, in total worth an average of 12% of salary of which an average 6% has been paid.

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The following performance against target was achieved during the year:

Standard of performance	Target	Actual	Average % of salary awarded
Customer Service	Significant improvement in SIM performance	Improved score achieved	7%
Operating Profitibilty	Budget	Target exceeded	17%
Operating costs	Below Budget	Target exceeded	9%
Cash Generation	Budget	Target exceeded	5%

The following bonuses in respect of the above performance and individual targets were paid to Directors employed directly by the Company in respect of the year ended 31 March 2013, reflecting the strong performance of the business in the year.

	£'000
E A Swarbrick	62
K H Marshall	23
M J Lewis	19
R E Barber	18
C Wayper	19

The above annual bonus is payable following the year end.

The Director of the Company who is an Executive Director of South Staffordshire Plc is remunerated by South Staffordshire Plc based upon the performance of the Group as a whole to reflect his Group wide role and therefore his remuneration was not directly linked to the performance standards of the Company.

HISTORICAL COST PROFIT AND LOSS ACCOUNT

FOR THE 12 MONTHS ENDED 31 MARCH 2013

		2013			2012	
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Turnover	92,334	2,398	94,732	87,673	3,387	91,060
Operating costs	(47,400)	(2,095)	(49,495)	(46,195)	(2,758)	(48,953)
Infrastructure renewals charge	(9,685)	-	(9,685)	(9,596)	-	(9,596)
Historical cost depreciation	(11,674)	(26)	(11,700)	(10,883)	(27)	(10,910)
Operating income	30	149	179	4	168	172
	23,605	426	24,031	21,003	770	21,773
Operating profit						
Other income	-	567	567	-	402	402
Net Interest	(9,935)	7	(9,928)	(9,564)	11	(9,553)
Profit on ordinary activities before taxation	13,670	1,000	14,670	11,439	1,183	12,622
Taxation - current	(2,945)	(204)	(3,149)	(1,982)	(281)	(2,263)
Taxation - deferred	539	-	539	(915)	-	(915)
Profit on ordinary activities after taxation	11,264	796	12,060	8,542	902	9,444
Extraordinary items			-	-	-	-
Profit for the year	11,264	796	12,060	8,542	902	9,444
Dividends	(12,204)	(796)	(13,000)	(9,398)	(902)	(10,300)
Retained profit for year	(940)	-	(940)	(856)	-	(856)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (HISTORICAL COST ACCOUNTING) FOR THE 12 MONTHS ENDED 31 MARCH 2013 (APPOINTED BUSINESS ONLY)

	2013	2012
Profit for the year	11,264	8,542
Actuarial gains/(losses) on post employment plans	-	-
Other gains and losses	82	(137)
Total recognised gains and (losses) for the year	11,346	8,405

HISTORIC COST BALANCE SHEET AS AT 31 MARCH 2013

	2013			2012		
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Fixed assets						
Tangible assets	208,642	1,125	209,767	198,868	1,150	200,018
Investments						
- loan to group company	40,000	-	40,000	40,000	-	40,000
- other						
Total fixed assets	248,642	1,125	249,767	238,868	1,150	240,018
Infrastructure renewals prepayment / (accrual)	(108)	-	(108)	(571)	-	(571)
Other current assets	21,741	2,941	24,682	20,203	3,008	23,211
Creditors: amounts falling due within one year						
Borrowings	(1,008)	-	(1,008)	(681)	-	(681)
Other creditors	(38,619)	(4,058)	(42,677)	(31,038)	(4,150)	(35,188)
Total creditors: amounts falling due within one year	(39,627)	(4,058)	(43,685)	(31,719)	(4,150)	(35,869)
Net current assets	(17,994)	(1,117)	(19,111)	(12,087)	(1,142)	(13,229)
Total assets less current liabilities	230,648	8	230,656	226,781	8	226,789
Creditors: amounts falling due after one year						
Borrowings	(196,874)	-	(196,874)	(191,811)	-	(191,811)
Other creditors	(11,398)	-	(11,398)	(11,727)	-	(11,727)
Total creditors: amounts falling due after one year	(208,272)	-	(208,272)	(203,538)	-	(203,538)
Provisions for liabilities and charges	(19,385)	(8)	(19,393)	(19,394)	(8)	(19,402)
Preference share capital	-	-	-	-	-	-
Net assets employed	2,991	-	2,991	3,849	-	3,849
Capital & reserves	2,991	-	2,991	3,849	-	3,849

The accompanying notes are an integral part of these financial statements.

Reconciliation between statutory and regulatory accounts

	Statutory UK GAAP	Regulatory	
Profit and loss account			
Operating profit	24,598	24,031	In the statutory accounts the Company classifies rental income of £567k as operating income. Ofwat accounting guidelines state that this should be classified as 'other income' i.e. below the operating profit line. Profit before tax is unaffected by this reclassification
Balance sheet			
Tangible fixed assets (net book value)	209,659	209,767	In the statutory accounts the Company adopts infrastructure accounting as set out in FRS 15. Ofwat requests that, for regulatory accounting purposes, FRS15 is not applied for infrastructure renewals accounting. The infrastructure renewals accrual of £108k is therefore excluded from the fixed asset net book value and is recorded as a current liability.
Other Current assets	62,884	24,682	In the statutory accounts a long term group debtor of £40,000k is disclosed within debtors due after more than one year. Ofwat accounting guidelines state that this should be classified as an investment. In addition, £742k of group debtors have been netted down as outlined below.
Investment - loan to group company	n/a	40,000	
Creditors due less than one year (excluding infrastructure renewals accrual)	(41,887)	(43,685)	In the statutory accounts, an additional £742k of group debtors / creditors have been netted down. Due to the Ofwat requirement to present appointed and non-appointed separately, this netting does not occur in the regulatory accounts.

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE 12 MONTHS ENDED 31 MARCH 2013 (APPOINTED BUSINESS ONLY)

		2013	2012
Turnover			
Unmeasured	- household	52,729	50,536
	- non-household	940	922
Measured	- household	20,172	18,910
	- non-household	17,110	15,984
Trade effluent		-	-
Bulk supplies/inter company payments		474	465
Other third party services (incl non-potable water)		546	500
Other sources		363	356
Total turnover		92,334	87,673
Current cost operating costs - wholesale		(58,468)	(54,060)
Current cost operating costs - retail		(15,206)	(16,769)
Operating income		1	(293)
Working capital adjustment		284	363
Current cost operating profit		18,945	16,914
Other income		-	-
Net Interest		(9,935)	(9,564)
Financing adjustment		(722)	(805)
Current cost profit before taxation		8,288	6,545
Net revenue movement out of tariff basket		(43)	153
Back-billing amount identified		174	149

The accompanying notes are an integral part of these financial statements.

CURRENT COST BALANCE SHEET AS AT 31 MARCH 2013

(APPOINTED BUSINESS ONLY)

	2013	2012
Fixed assets		
Tangible assets	1,915,116	1,847,304
Third party contributions since 1989-90	(132,796)	(126,193)
Working Capital	(9,928)	(8,608)
Cash	1,055	1,013
Overdraft	(9,407)	(6,030)
Infrastructure renewals accrual	(108)	(571)
Net Operating Assets	1,763,932	1,706,915
Non operating assets and liabilities		
Borrowings	(1,008)	(681)
Non-trade debtors	4,147	4,264
Non-trade creditors due within one year	(636)	(636)
Investment - loan to group companies	40,000	40,000
Corporation tax payable	(2,110)	(838)
Total non operating assets and liabilities	40,393	42,109
Creditors: amounts falling due after one year		
Borrowings	(196,874)	(191,811)
Other creditors	(11,398)	(11,727)
Total creditors: amounts falling due after one year	(208,272)	(203,538)
Provisions for liabilities and charges		
Deferred tax provision	(11,661)	(12,087)
Total provisions for liabilities and charges	(11,661)	(12,087)
Net assets employed	1,584,392	1,533,399
Capital & reserves		
Called up share capital	2,123	2,123
Share Premium	495	495
Profit and loss account	4,450	(63,567)
Current cost reserve	1,582,457	1,595,113
Other reserves	(5,133)	(765)
Shareholders' funds	1,584,392	1,533,399

The accompanying notes are an integral part of these financial statements.

CURRENT COST CASH FLOW STATEMENT FOR THE 12 MONTHS ENDED 31 MARCH 2013 (APPOINTED BUSINESS ONLY)

	2013	2012
Current cost operating profit	18,944	16,914
Working capital adjustment	(284)	(363)
Movement in working capital	1,424	(842)
Receipts from other income	-	-
Current cost depreciation	16,590	15,038
Current cost profit on sale of fixed assets	(1)	293
Infrastructure renewals charge	9,685	9,596
Movement in provisions	-	-
Net cash flow from operating activities	46,358	40,636
Returns on investments & servicing of finance	(4,550)	(4,239)
Taxation paid	(1,560)	(3,387)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(23,945)	(20,546)
Receipt of grants and contributions	3,095	4,034
Infrastructure renewals expenditure	(10,148)	(9,492)
Disposal of fixed assets	33	1,684
Movements on long term group loans to group companies	-	-
Net cash outflow from investing activities	(30,965)	(24,320)
Acquisitions and disposals		-
Equity dividends paid	(12,204)	(9,398)
Net cash flow from management of liquid resources	-	-
Net cash flow before financing	(2,921)	(708)
Net cash inflow from financing	(414)	(370)
Increase/(decrease) in cash	(3,335)	(1,078)

The accompanying notes are an integral part of these financial statements.

1 Statement of Accounting Policies

In accordance with condition F of the Instrument of Appointment, these financial statements have been prepared to show separately in respect of each of:

- i the appointed business
- ii the non-appointed business
- iii on an aggregated basis, the appointed and non-appointed businesses;

a profit and loss account, a balance sheet and a cash flow statement.

(a) Historic Cost Regulatory Accounts

The accounting policies used are the same as those adopted in the statutory historic cost accounts on pages 31 to 34, with the exception of infrastructure renewals which, following the instructions of the Water Services Regulation Authority set out in the letter RD15/99, dated 21 April 1999, “Regulatory Accounts for 1999/00 Reporting Requirements – RAG3.04”, has been accounted for in accordance with RAG 2, “Classification of Infrastructure Expenditure”. RAG2 is not in accordance with Financial Reporting Standard No. 12 (FRS 12), Provisions, Contingent Liabilities and Contingent Assets or FRS 15 Tangible Fixed Assets.

(b) Basis of Current Cost Accounting

The Current Cost financial statements have been prepared for the Appointed Business of the Company in accordance with guidance issued by the Water Services Regulation Authority for modified real financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets that are valued at their current cost value to the business.

(c) Tangible Fixed Assets

Assets are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of value to the business principle. Also, no provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

Modern Equivalent Asset (MEA) valuation

A review of the MEA valuation and asset stock is undertaken as part of the Periodic Review. The revised values arising from this review provide the basis for calculating the MEA in the current cost financial statements. Between Periodic Reviews, an asset valuation using RPI is carried out on an annual basis. The current cost depreciation figures included in the current cost operating costs are based upon the revised MEA values.

Infrastructure Assets

Infrastructure assets are valued at replacement cost, determined principally on the basis of data provided by the Assets Management Plan (AMP) at 31 March 2008.

A process of continuing refinement of asset records is expected to produce adjustments to existing values when Periodic Reviews of the AMP take place. In intervening years, values are restated to take account of changes in the general level of inflation, using the RPI.

In accordance with instructions from the Director General of the Office of Water Services set out in his letter RD15/99, dated 21 April 1999, “Regulatory Accounts for 1999/00 Reporting Requirements – RAG 3.04”, the Company has not applied FRS 12, “Provisions, Contingent Liabilities and Contingent Assets” and FRS15 “Tangible Fixed Assets” in respect of infrastructure renewals accounting and has continued to charge infrastructure renewal costs (calculated in accordance with their Asset Management Plan) to prepayments or provisions. Expenditure during the years is applied against the prepayment or provision.

Under FRS 12, it is not permitted to recognise a provision for the costs of renewal expenditure. Adoption of FRS 12, taken together with FRS 15 would require:

I. restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewal expenditure, depreciation and retirement of assets since the year ended 31 March 1989, when renewals accounting was first adopted. Accordingly, the infrastructure renewals accrual at 31 March 2013 would have been included within infrastructure fixed assets.

II. the depreciation of infrastructure assets and the inclusion of the infrastructure renewal charge as a component of the depreciation charge for the year.

Other Tangible Assets

All other tangible assets are valued periodically at depreciated replacement cost. Between periodic reviews, values are restated for inflation as measured by changes in the RPI.

Third Party Contributions

Infrastructure charges and other third party contributions received are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI over the year.

(d) Real Financial Capital Maintenance Adjustments

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

- Working Capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.
- Financing adjustment – this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

(e) Index-Linked Debt

The statutory and regulatory accounting policies for index-linked debt are consistent. Index-linked debt is carried in the balance sheet at amortised cost. The premium / discount and costs of issue are amortised over the life of the instrument with the amortisation being included in the effective interest rate of the instrument which is included in net interest in the profit and loss account.

(f) Revenue Recognition

The statutory and regulatory accounting policies for revenue recognition are consistent.

Income is based on the value of bills raised in the year. For metered consumption not yet billed, an accrual is estimated.

Where a property is unoccupied and fully furnished charges are still applicable. Charges are also applicable where a property is renovated.

Charges may be waived in special circumstances, for example hospitalisation, probate and incarceration.

A property which is believed to be occupied, but the occupier details are not known, the income is not recognised until the occupants details are obtained. The Company uses land registry searches and void inspector visits to ascertain the identity of any occupier.

The Company does not bill unmetered void properties speculatively to 'the occupier'. Properties are visited by void inspectors to confirm that a property is unoccupied.

For void metered properties, where consumption has been measured and the identity of the customer is not known following a void inspection, the property will be billed for the full charges in the name of 'the occupier'. Charges raised are realised as revenue in the same way as other metered income.

The first bill for a new connection is based on an actual meter reading. Where a customer has been connected during the year but has not had a meter reading, an estimate of the income is accrued based on the average household consumption.

Charges on income include charging orders and attachment of earnings. Cash received is applied against the outstanding debt. The income is recognised from the billing date.

The Company operates an 'income maximisation' project that is used to identify properties not held on the Company's billing system. Any properties billed under this project are not recognised as turnover until the running costs of the project have been covered.

(g) Bad Debt

Before passing an account for write-off, all debts will be pursued through all available recovery methods and will usually include attempts by the Sheriff Officers or Debt Collection Agencies. Only where it is impossible, impractical or inefficient to collect debt, will a recommendation for a write-off be made.

There will be a variety of circumstances when it will be necessary to write off irrecoverable debts and these can be summarised below:

Absconded

- Where returned mail is received on accounts, no forwarding details are available and a final account is created, and where all recovery options have been exhausted.
- Where a debt has been passed to a Trace and Collect Agency and the agency is unable to trace the customer and therefore is unable to collect the debt outstanding.
- Where the total debt is less than £50, it is uneconomic to pass for Trace and Collection and therefore the debt outstanding is unable to be collected.
- Where a customer has debt greater than 6 years and no billing activity or correspondence has been received in this period. (Statute Barred)

Bankruptcy

- A domestic customer where official and final notification has been received from the courts or a check has been made with the online Insolvency website service.

Deceased

- Where the balance outstanding is less than £25 the amount is written off immediately.
- Where the balance outstanding is greater than £25, the estate is approached. Where written confirmation has been received in writing that the estate has insufficient funds, the balance is written off.

- In circumstances where a joint tenancy liability exists the remaining party is pursued for the whole amount of the arrears.
- Where attempts to contact the Executors (or next of kin) have failed to produce a response, balances under £100 are written off after a period of 6 months.

Liquidation

- A commercial customer where final notification has been received from an Official Receiver, Insolvency Practitioner or Liquidators that the company has been liquidated.
- Debts where a company has ceased to trade leaving no assets.

Uneconomic to Collect

- Final debt over 4 years will be written off where evidence exists that it has become non-collectable. A minimum of three attempts to contact a customer by telephone and / or letter in the prior 12 months has proved to be ineffective and there has been no payment or contact in the preceding 12 months.
- The debtor's age, health or other social factors make it inappropriate to pursue the debt.
- Sums of less than £25 will be written-off as they are deemed to be uneconomical to collect.

(h) Capitalisation Policy

Capital expenditure is expenditure which results in the acquisition of an asset for continuing use within a business with a view to earning income or making profits from its use, either directly or indirectly.

Operating expenditure is expenditure incurred either for the purpose of the day to day running of the business or to maintain the existing capacity of fixed assets.

Costs are allocated between operating and capital expenditure in accordance with the Company's accounting policies and applicable accounting standards. The deminimis for capitalisation is £1,000 for minor assets and £5,000 for buildings.

(i) Accounting Separation policy

The Regulatory accounts have been drawn up in accordance with the separately published accounting separation methodology statement available on the Company's website.

Data for accounting separation is predominately taken from the Company's financial system, through downloads into excel. The financial information is captured at a location and activity level. Subjective codes are used to classify the expenditure within the relevant lines. Cost and assets are then attributed directly to business units in line with Regulatory Accounting Guidelines.

For general and support expenditure, a number of cost drivers have been identified for allocation of costs into the relevant business units. These include headcount, number of vehicles, floor space and asset values.

During the year, and in line with updated Regulatory Accounting Guidelines, customer meters have been reclassified from the retail business unit to the treated water distribution business unit.

2. Non-Appointed Business Activities

In general, non-appointed activities are those which involve the optional use of an asset owned by the appointed business.

3. Operating cost analysis for the 12 months ended 31 March 2013 (wholesale business only)

	Water				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	1,069	44	1,256	2,707	5,076
Income treated as negative expenditure	-	-	-	-	-
Service charges	2,489	-	9	7	2,505
Bulk supply imports	-	-	-	-	-
Other operating expenditure	2,088	138	8,331	10,629	21,186
Local authority rates	144	220	200	3,649	4,213
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	5,790	402	9,795	16,992	32,979
Capital maintenance					
Infrastructure renewals charge	-	-	-	9,685	9,685
Current cost depreciation	1,157	8	4,563	10,048	15,776
Recharges to other business units	-	-	-	(55)	(55)
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	(658)	-	(658)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	1,157	8	3,905	19,678	24,748
Third party services					
Operating expenditure	24	1	435	342	801
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	6,971	410	14,136	37,012	58,529

4. Operating cost analysis for the 12 months ended 31 March 2013 (retail business only)

	Household	Non-household	Total
Operating expenditure			
Customer services	3,822	230	4,052
Debt management	1,055	170	1,225
Doubtful debts	2,426	391	2,818
Meter reading	655	132	787
Services to developers	-	-	-
Other operating expenditure	4,005	633	4,637
Local authority rates	93	5	98
Exceptional items	-	-	-
Total operating expenditure excluding third party services	12,055	1,562	13,617
Third party services operating expenditure	-	2	2
Total operating expenditure	12,055	1,564	13,619
Capital maintenance			
Current cost depreciation	1,248	224	1,471
Recharges to other business units	-	-	-
Recharges from other business units	44	10	55
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1,292	234	1,526
Total operating costs	13,347	1,798	15,145
Debt written off	101	103	203

5. Current cost analysis of fixed assets (wholesale business only)

	Water				
	Resources	Raw water distribution	Treatment	Treated distribution	Water sub-total
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2012	41,210	1,461	141,593	227,772	412,036
AMP adjustment	-	-	-	-	-
Reclassification adjustment	(356)	(73)	(201)	34,287	33,658
RPI adjustment	1,348	46	4,666	8,648	14,708
Disposals	(27)	(2)	(56)	(306)	(391)
Additions	3,627	58	4,868	10,211	18,763
At 31 March 2013	45,803	1,490	150,870	280,612	478,774
Depreciation					
At 1 April 2012	17,816	622	77,799	82,712	178,949
AMP adjustment	-	-	-	-	-
Reclassification adjustment	(110)	(25)	(45)	11,122	10,943
RPI adjustment	584	20	2,566	3,097	6,266
Disposals	(18)	(1)	(38)	(209)	(266)
Charge for year	1,157	8	4,563	10,048	15,776
At 31 March 2013	19,429	624	84,846	106,770	211,668
Net book amount at 31 March 2013	26,374	866	66,024	173,842	267,106
Net book amount at 1 April 2012	23,394	839	63,794	145,060	233,087
Infrastructure assets					
Gross replacement cost					
At 1 April 2012	72,337	50,922	-	1,457,529	1,580,788
AMP adjustment	-	-	-	-	-
Reclassification adjustment	(54,926)	54,926	-	-	-
RPI adjustment	575	3,493	-	48,099	52,166
Disposals	-	-	-	-	-
Additions	-	-	-	3,554	3,554
At 31 March 2013	17,985	109,341	-	1,509,182	1,636,508

6. Current cost analysis of fixed assets (retail business only)

	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2012	42,649	16,604	59,253
AMP adjustment	-	-	-
Reclassification adjustment	(21,725)	(11,933)	(33,658)
RPI adjustment	690	154	845
Disposals	(124)	(29)	(153)
Additions	1,744	160	1,904
At 31 March 2013	23,235	4,956	28,191
Depreciation			
At 1 April 2012	17,633	8,194	25,827
AMP adjustment	-	-	-
Reclassification adjustment	(5,006)	(5,937)	(10,943)
RPI adjustment	417	74	491
Disposals	(84)	(20)	(104)
Charge for year	1,177	207	1,384
At 31 March 2013	14,137	2,519	16,656
Net book amount at 31 March 2013	9,098	2,437	11,535
Net book amount at 1 April 2012	25,016	8,410	33,426

For the purpose of the regulatory accounts, an asset revaluation using RPI is carried out on an annual basis. Revaluations arising from specific price changes are carried out once every five years to coincide with the production of the Asset Management Plan (AMP) and are based on estimated replacement values following a condition and performance assessment undertaken by the Company. The Directors believe that the policy adopted is the most appropriate methodology for the Company.

7. Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2013

	Current year			Prior year		
	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net
Capital expenditure - water						
Base						
Infrastructure Renewals Expenditure (IRE)	10,360	212	10,148	10,286	794	9,492
Maintenance non-infrastructure (MNI)	17,633	1,005	16,628	13,938	1,195	12,743
Enhancements			-			-
Infrastructure enhancements	3,530	2,090	1,440	3,582	2,838	744
Non-infrastructure enhancements	3,120	-	3,120	3,276	-	3,276
Total capital expenditure - water	34,643	3,307	31,336	31,082	4,827	26,255
Grants and contributions - water						
Developer contributions (i.e. Enhancement requisitions, grants and contributions)		2,508			4,093	
Infrastructure charge receipts - new connections		617			689	
Other Contributions		182			45	
Total grants and contributions - water		3,307			4,827	
Total capital expenditure - water and sewerage	34,643	3,307	31,336	31,082	4,827	26,255
Land sales - Proceeds from disposals of protected land	-	-	-	-	-	-

8. Analysis of working capital

		2013	2012
Stocks		1,464	1,527
Trade debtors	- measured household	1,816	1,695
	- unmeasured household	4,680	3,914
	- measured non-household	847	906
	- unmeasured non-household	161	145
	- other	472	593
Measured income accrual		5,488	5,398
Prepayments and other debtors		1,577	748
Trade creditors		(7,746)	(6,478)
Deferred income – customer advance receipts		(9,423)	(9,186)
Capital creditors		(1,249)	(1,353)
Accruals and other creditors		(8,015)	(6,517)
Total working capital		(9,928)	(8,608)
Total revenue outstanding	- household	23,667	20,423
	- non-household	3,400	3,294

9. Analysis of net debt, gearing and interest costs

	Fixed rate	Floating rate	Index linked	Total
Borrowings (excluding preference shares)	3,471	9,406	180,986	193,862
Preference share capital	-	-	-	-
Total Borrowings	3,471	9,406	180,986	193,862
Cash	-	1,055	-	1,055
Short term deposits	-	-	-	-
Net Debt	3,471	8,351	180,986	192,807
Regulatory capital value				263,388
Gearing				73.2%
Full year equivalent nominal interest cost	200	359	12,112	12,671
Full year equivalent cash interest payment	200	359	6,034	6,593
Indicative interest rates				
Indicative weighted average nominal interest rate	5.8%	3.8%	6.7%	
Indicative weighted average cash interest rate	5.8%	3.8%	3.3%	
Weighted average years to maturity	13	9	37	

The table excludes non-appointed cash of £444k which is included for covenant compliance reporting.

10. Regulatory Capital Value

	2013
Opening RCV for the year	260,756
Capital Expenditure	24,693
Infrastructure Renewals Expenditure	11,298
Grants and Contributions	(3,087)
Depreciation	(18,299)
Infrastructure Renewals Charge	(10,896)
Outperformance of Regulatory Assumptions	(1,077)
Closing RCV carried forward	263,388
Average RCV	257,831

The table shows the RCV used in setting price limits for the period (2010-11 to 2014-15); the differences from the actual capital expenditure and depreciation etc will not affect price limits in the 2010-15 period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

11. Non-financial information for the 12 months ended 31 March 2013

	2013	2012
Number of properties ('000s)		
Households billed	522.692	520.685
Non-households billed	29.983	29.853
Household voids	13.363	13.860
Non-household voids	4.517	4.613
Properties served by new appointee in supply area as at 1 April 2009	-	-
Per capita consumption (excluding supply pipe leakage) l/h/d		
Unmeasured household	132.09	137.63
Measured household	116.16	129.57
Volume (Ml/d)		
Bulk supply export	36.16	39.05
Bulk supply import	0.04	0.05
Distribution input	284.03	295.28

12. Condition F

Under the provisions of Condition F, the following information is provided.

(a) Borrowing

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2013 in respect of which all conditions precedent have been met were £15.9m.

(b) Dividends

During the year, South Staffordshire Water PLC paid dividends in respect of 2012-13 for the Appointed Business of £8.1 million (dividends paid in 2011-12: £9.4 million). In addition a final dividend of £4.1m was paid in the year reflecting better than expected cash flows and levels of debt in 2011-12.

The Company's policy is to pay dividends that maintain the level of debt to Regulated Asset Value (RAV) at up to 77%. At 31 March 2013 this ratio was 73.0% and reflects the cash flow outperformance in the year and a higher than expected year end RPI of 3.3%.

(c) Other Transactions

The aggregate value of other transactions under the provisions of Condition F is not material to the Appointed Business as a whole.

(d) Associated Companies

The following transactions with associated companies have occurred during the year:

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Integrated Water Services Limited	41.5	Mainlaying and repair of water mains	4.4	Competitive tendering
		Mains rehabilitation	4.4	Competitive tendering
		Minor civils	0.5	Competitive tendering
		Metering	2.3	Competitive tendering
		Water treatment	0.5	Cost
		M&E maintenance and repair	0.3	Cost
		M&E capital works	4.1	Competitive tendering
Echo Managed Services Limited	22.8	Customer services	5.4	Cost
		Billing software	0.4	Cost
South Staffordshire Plc	nil	Management services	0.9	Cost
		Parent company services	1.6	Cost

13. Condition K

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of its Instrument of Appointment as at 31 March 2013.

14. Auditor

The Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

F6A CERTIFICATE OF THE DIRECTORS

The Directors declare that in their opinion:

a) The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated activities (including the investment programme) necessary to fulfil the Company's obligations under its Instrument of Appointment.

b) The Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its activities and fulfil its obligations.

c) All contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

d) The Company will, for at least the next 12 months, have available for it systems of internal control which are sufficient to enable it to carry out its functions.

In making this declaration, the Directors have taken into account:-

a) The Company's budget for 2013-14, the three year plan and the investment programme;
b) The investment grade credit rating in the 'BBB+' band;
c) The committed borrowing facilities available to the Company;
d) The depth of the management team and the succession planning in place;
e) The contracts in place with Associated Companies;
f) The Company's internal control process which identifies evaluates and manages risks faced by the Company.

M. J. Lewis
Regulation Director
12 July 2013

REPORT OF THE AUDITOR

Independent auditors' report to the Water Services Regulation Authority ("WSRA") and South Staffordshire Water plc ("the Company").

We have audited the Regulatory Accounts of South Staffordshire Water PLC for the year ended 31 March 2013 on pages 57 to 83 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts and the related notes to the historical cost accounting statements including the statement of accounting policies; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 24, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in

Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information presented with the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 1 to the accounts and its Accounting Separation Methodology Statement published on the Company's website on 12 July 2013, (the "Methodology Statement").We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

REPORT OF THE AUDITOR

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA, in respect of the Accounting Separation Tables the Methodology Statement, and the accounting policies set out on pages 66 to 72, the state of the Company's affairs at 31 March 2013 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended;
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies and the Methodology statement.

Emphasis of matter - Basis of preparation

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 59 and 61 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 62.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

- The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.
- Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
12 July 2013